

**Governor's Finance Office
Division of Internal Audits**

2023 Annual Report



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Introduction

The Division of Internal Audits assists and supports executive branch leaders and managers by auditing agency operations and offering recommendations that enhance the efficiency and effectiveness of state government. These recommendations inform state policy makers, assist agencies better manage spending, and identify potential benefits for Nevadans from improved governance.

Internal audit and compliance review recommendations help agencies better serve the public and safeguard state resources by improving management and outcomes, and preventing and detecting waste, fraud, and abuse. Internal audit recommendations are presented publicly to the Executive Branch Audit Committee. Compliance review recommendations are presented to the Clerk of the Board of Examiners.

The Administrator of the Division of Internal Audits administratively reports to the Director of the Governor's Finance Office and functionally reports to the Executive Branch Audit Committee. The Executive Branch Audit Committee is comprised of Nevada's constitutional officers and a member of the public.

Executive Branch Audit Committee Members (NRS 353A.038)

The Honorable Joe Lombardo
Governor, Chairman

The Honorable Stavros Anthony
Lieutenant Governor

The Honorable Francisco V. Aguilar
Secretary of State

The Honorable Zach Conine
State Treasurer

The Honorable Andy Matthews
State Controller

The Honorable Aaron D. Ford
Attorney General

Ms. Trudy Dulong, CPA
Member of the Public

The Division of Internal Audits consists of three sections: Internal Audit, Compliance Review, and Financial Management.

Internal Audit Section

Goal: Improve the efficiency and effectiveness of state government, agency management, and operations. Ensure compliance with the Governor’s objectives, state and federal guidelines, and help safeguard state resources.

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Compliance Review Section

Goal: Ensure agencies have adequate internal controls over fiscal processes and agencies’ transactions comply with state and federal guidelines.

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Financial Management Section

Goal: Help agencies safeguard assets, and prevent and detect fraud through internal control training, assistance, monitoring, and reviews.

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Staff Qualifications

The Internal Audit section consists of 11 Executive Branch Auditors. Executive Branch Auditors possess one or a combination of the following degrees, licenses, or certifications: an advanced degree in public policy, business, or a closely related field; certified public accountant; and/or certified internal auditor.

Vacancies in Executive Branch Auditor positions during fiscal year 2023 amounted to approximately three full time equivalent positions.

Internal Audit Process

At the direction of the Executive Branch Audit Committee (Committee) and by request from state government leaders, the Division of Internal Audits (DIA) performs audits addressing the efficiency and effectiveness of state agency management and operations. DIA performs follow-up reviews on internal audit recommendations and the Legislative Auditor's audit recommendations to determine the progress state agencies have made implementing audit report recommendations.

Audit Plan – Audits of Efficiency and Effectiveness

DIA selects audits to perform based on requests from Committee members and executive branch agency management; fraud, waste, and abuse hotline tips; and a risk assessment using multiple criteria, including but not limited to:

- ✓ Governor's strategic goals and policy priorities;
- ✓ Source and amount of agency funding;
- ✓ DIA's previous audits;
- ✓ Legislative Auditor's previous and planned audits; and
- ✓ Identified and/or emerging risk factors.

DIA developed an annual audit plan addressing requests from Committee members and agencies as well as DIA's risk assessment. In accordance with NRS 353A, DIA consulted with the Director of the Governor's Finance Office and the Legislative Auditor concerning the audit plan to avoid any potential duplication of effort or disruption to state agencies.

With the approval of the Committee, the audit plan can be adjusted during the year to address new requests or priorities for audits. Requests for audits take precedence, in general, over audits identified through DIA's risk assessment. The priority for audit requests is: Governor, Committee Members, Office of the Governor, Department Directors, and other executive branch agency managers.

Reporting

Throughout the audit process, Executive Branch Auditors met with agency management to discuss the audit scope, progress, and findings. At the conclusion of the audit, DIA submitted a draft report to the agency. The goal is to achieve consensus on audit recommendations and the agency's ability to implement the recommendations. The head of each agency audited in 2023 provided an official audit response and an implementation schedule for recommendations accepted by the agency. Each agency's official audit response and implementation schedule were included as part of the audit's final report. Final reports were presented to the Executive Branch Audit Committee and the audited agencies.

Per statute, within six months of issuing final reports, DIA performed follow-ups to determine the implementation status of audit recommendations. DIA performed annual follow-ups on recommendations not fully implemented from previous audits. Follow-up results were presented to the Executive Branch Audit Committee.

Summary of Actions by the Executive Branch Audit Committee and Audit Presentations

December 14, 2022 Committee Meeting – DIA presented two audits, five 6-month follow-up reports, and five first-time annual follow-up reports. The Committee approved the fiscal year 2023 audit plan pursuant to NRS 353A.038 and the fiscal year 2022 annual report pursuant to NRS 353A.065.

July 19, 2023 Committee Meeting – DIA presented one audit, two 6-month follow-up reports, and four first-time annual follow-up reports. The Committee approved audit additions to the fiscal year 2023 annual plan.

Accomplishments

Audits Completed

The Division of Internal Audits (DIA) presented three audits to the Executive Branch Audit Committee. Two audits were requested by executive branch management; one was selected based on DIA's risk assessment. DIA audits identified opportunities for improving management and operations in agencies and recommended solutions to promote efficient and effective government:

1. (DIA 23-01) Peace Officer Standards and Training Commission – State Support (request).
2. (DIA 23-02) Department of Conservation and Natural Resources, Division of Water Resources – Fiscal Processes (risk).
3. (DIA 23-03) Department of Conservation and Natural Resources, Division of Water Resources – Rate Equity (request).

Audit Follow-ups Completed

DIA presented seven **6-month follow-up reports** to the Executive Branch Audit Committee:

1. (DIA 22-03) Department of Health and Human Services – Transportation Services.
2. (DIA 22-04) Department of Administration, Purchasing Division – Contract Monitoring.
3. (DIA 22-05) Department of Corrections – Fiscal Processes.
4. (DIA 22-06) Department of Public Safety, Investigation Division – Task Force Operations.
5. (DIA 22-07) Department of Administration, State Public Works Division, Buildings and Grounds Section – Extra Services.
6. (DIA 23-01) Peace Officer Standards and Training Commission – State Support.
7. (DIA 23-02) Department of Conservation and Natural Resources, Division of Water Resources – Fiscal Processes.

DIA presented nine first-time **annual follow-up reports** to the Executive Branch Audit Committee:

1. (DIA 21-01) Department of Administration, State Public Works Division – Category 13 Projects.
2. (DIA 21-02) Department of Public Safety, Division of Parole and Probation – Caseloads.
3. (DIA 21-03) Department of Corrections – Fiscal Processes.
4. (DIA 21-04) Department of Natural Resources, Division of Environmental Protection – Certified Environmental Manager Oversight.
5. (DIA 21-05) Governor’s Finance Office and Department of Administration, Deferred Compensation Program – Board of Pharmacy Deferred Compensation Match.
6. (DIA 21-06) Department of Conservation and Natural Resources, Division of Forestry – Overtime.
7. (DIA 21-07) Department of Agriculture – Grants Management.
8. (DIA 22-01) Department of Administration, State Public Works Division, Buildings and Grounds Section – State-Owned Building Rental Rates.
9. (DIA 22-02) Department of Public Safety, Investigation Division – Administrative Processes.

Audit Follow-ups Completed for Legislative Counsel Bureau, Audit Division

DIA completed five 6-month follow-ups on recommendations issued by the Legislative Auditor for the following agencies:

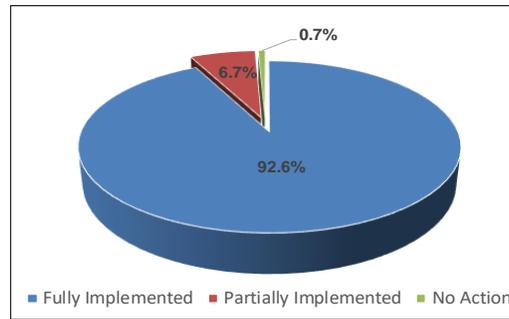
1. (LA22-08) Department of Health and Human Services, Division of Child and Family Services – Management of Maltreatment Reports and Child Health.
2. (LA22-11) Department of Corrections – Use of Force.
3. (LA22-12) Department of Health and Human Services, Division of Healthcare Financing and Policy – Information Security.
4. (LA22-13) Nevada State Board of Medical Examiners.
5. (LA22-14) Department of Health and Human Services, Division of Child and Family Services – Assessment and Safety of Child Placements.

Executive Branch Audits in Progress

As of June 30, 2023, DIA has the following audits in progress:

1. (EO 2023-005) 17 Public School Districts and the State Public Charter School Authority.
2. (DIA 24-01) Department of Veterans Services – Northern Nevada Veterans Home (request).
3. (DIA 24-02) Department of Education, State Public Charter School Authority – Charter Schools Access (request).
4. (DIA 24-03) Collective Bargaining Agreement – Fraternal Order of Police (request).
5. (DIA) 24-04) Collective Bargaining Agreement – Nevada Police Union (request).

Current Status of Audit Recommendations Issued to State Agencies



Description ^[1]	Report #	Total Rec's	Fully Implemented	Partially Implemented	No Action	No Longer Applicable
All Previous Audits ^[2]	N/A	736	637	0	0	99
Controller - Collections	16-05	7	3	1	0	3
Fleet Services - State Vehicle Leasing	16-07	3	2	1	0	0
EITS - TIR	17-04	4	3	1	0	0
Boards & Commissions - Oversight	18-05A	4	3	1	0	0
NDOC - Offsite Medical Care	18-06A	3	1	1	0	1
EITS - IT Governance	18-08	6	1	5	0	0
Secretary of State - Elections	19-01	5	3	2	0	0
Boards & Commissions - Governance	19-03	2	0	2	0	0
Board of Dental Examiners	19-04	4	3	1	0	0
Marijuana Enforcement Div - Cannabis Compliance Board	20-01	3	0	1	2	0
SPWD - Commercial Office Space	20-02	2	0	2	0	0
SPWD - B&G Project Management	20-03	3	2	1	0	0
NDOC - Mental Health Services	20-04	2	0	2	0	0
Board of Pharmacy - Licensing Operations	20-05	5	4	1	0	0
Parole & Probation - Program Operations	20-06	4	3	1	0	0
Purchasing - Foreign Vendors	20-07	3	1	1	0	1
ASD - Bond Management & Accounting	20-08	3	2	1	0	0
SPWD - Long-Term Office Space Planning	20-10	5	0	5	0	0
Parole & Probation - Caseload Ratios	21-02	2	0	2	0	0
NDOC - Fiscal Processes.1	21-03	4	0	4	0	0
PEDCP/GFO - Board of Pharmacy Deferred Compensation Match	21-05	2	1	1	0	0
DCNR-NDF Overtime	21-06	2	1	1	0	0
Department of Agriculture-Grants Management.1	21-07	1	0	1	0	0
DofA, SPWD-State-Owned Building Rental Rates	22-01	1	0	1	0	0
DHHS Transportation Services	22-03	2	0	2	0	0
DofA Purchasing - Contract Monitoring	22-04	1	0	1	0	0
NDOC Fiscal Processes.2	22-05	4	0	2	2	0
Department of Public Safety/Task Force Operations	22-06	2	1	0	1	0
Commission on Peace Officer Standards and Training	23-01	3	1	2	0	0
DCNR, DWR/Water Mgt. Rates and Fees	23-02	2	0	2	0	0
Total		830	672	49	5	104
Adjusted Total / Percentages^[3]		726	92.6%	6.7%	0.7%	

^[1] Excludes recently released reports that have not yet had a follow-up.

^[2] Previous audits with no outstanding recommendations.

^[3] Recommendations that are no longer applicable are not included in percentage calculations.

Performance Measures

The Division of Internal Audits (DIA) develops recommendations that improve the efficiency and effectiveness of state agencies through solution-based recommendations. DIA estimates the dollar benefit of recommendations when possible; however, many of the benefits to the state and its citizens are not quantifiable. For instance, DIA cannot put a value on the enhanced safety and welfare of the citizenry. Additionally, many times data are not available to estimate the benefit. When sufficient data are available, DIA documents dollar estimates in audit reports. For fiscal year 2022, DIA estimates the benefits to the state and citizens for every dollar spent on the Internal Audit section as follows:

✓ **Every \$1 spent on the Internal Audit section.
benefits the state by \$104.**

The following summarizes Internal Audit’s performance measures:

Performance Measures	FY 2022		FY 2023		FY 2024
	Projected	Actual	Projected	Actual	Projected
Dollar benefits for each dollar spent on Internal Audit	70	150	70	104	70
Percentage of recommendations fully implemented	90	93	90	93	90



Staff Qualifications

The Compliance Review section consists of an Executive Branch Audit Manager and two Compliance Auditors. The Compliance Auditors have college degrees or requisite college courses and/or experience.

There were no vacancies in Compliance Auditor positions in fiscal year 2023.

Compliance Review Process

The Division of Internal Audits (DIA) reviews agencies' fiscal transactions to ensure adequate internal controls over fiscal processes are in place and transactions comply with state and federal guidelines. DIA analyzes exceptions, summarizes deficiencies, and makes recommendations to correct systemic problems noted during reviews. DIA helps agencies develop acceptable and timely corrective actions to findings documented in compliance review reports.

Selection of Reviews

DIA selects agencies for reviews per requests from executive branch management, reviews required by statute, and through risk assessment. Risk is assessed based on results of other audits and reviews, results of the biennial Self-Assessment Questionnaire (SAQ), and other information. In consultation with the Director of the Governor's Finance Office, the Administrator may adjust the compliance review plan during the year to address new requests for audits, special reviews, and/or newly identified risks within specific agencies.

Compliance Reviews

DIA reviewed the adequacy and effectiveness of agencies' internal controls through discussions with agency staff, observations of agency processes, and examination of documentation. In addition, DIA reviewed agencies' transactions to ensure compliance with state and federal guidelines and governmental generally accepted accounting principles. Results of the reviews were issued to agency management and the Clerk of the Board of Examiners.

Accomplishments

Work Accomplished

DIA conducted five compliance reviews and one special project. The following work was completed or was in progress as of June 30, 2023:

Compliance Reviews

1. (21-012) Governor’s Office – Agency for Nuclear Projects.
2. (22-011) Governor’s Office of Energy.
3. (23-084) Department of Administration – Fleet Services.
4. (23-315) Public Charter School Authority (fiscal year 2022, in progress).
5. (23-702) Department of Wildlife (fiscal year 2022, in progress).

Other Projects

1. Executive Order 2023-005.

Work Planned

As of June 30, 2023, DIA has the following compliance reviews and audit contributing work planned:

1. Department of Tourism and Cultural Affairs – Division of Museums and History.
2. Department of Transportation.
3. Department of Administration – Mail Services.
4. Nevada Commission on Off Highway Vehicles.
5. Department of Health and Human Services – Division of Child & Family Services.
6. Public Safety – Office of Cyber Defense.

Performance Measure

The following summarizes Compliance Review’s performance measure:

Performance Measure	FY 2022		FY 2023		FY 2024
	Projected	Actual	Projected	Actual	Projected
Percentage of recommendations implemented	94	100	94	100	94



***Financial
Management
Section***

Staff Qualifications

The Financial Management section is led by an Executive Branch Audit Manager. The Executive Branch Audit Manager is assisted with Financial Management section responsibilities by Executive Branch Auditors from the Internal Audits section and Compliance Auditors from the Compliance Review section.

Financial Management Process

The Division of Internal Audits (DIA) trains agencies on state internal control and financial management requirements in accordance with NRS 353A.055. DIA analyzes audit and monitoring site visit reports from federal agencies to ensure state agencies develop and implement acceptable and timely corrective actions to report findings. DIA administers the State of Nevada's Fraud, Waste, and Abuse Hotline and provides guidance to state agencies on compliance-related issues.

Accomplishments

Biennial Report on Internal Controls

NRS 353A.025 requires each Executive Branch agency to periodically review policies, procedures, and internal controls to determine compliance with the state's uniform system of internal accounting and administrative control. The results of the review must be submitted to the Director of the Governor's Finance Office (GFO) on or before July 1 of each even-numbered year, which are evaluated by DIA for completeness, internal control findings, and appropriate corrective actions. DIA compiles data for untimely reports and agency-reported internal control weaknesses into a report reviewed and approved by the GFO Director. DIA submits the final approved report to the Governor, Director of the Legislative Counsel Bureau, and the Legislative Auditor on or before the first Monday of each odd-numbered year.

During fiscal year 2023, DIA completed biennial review activities related to 93 agencies and 657 budget accounts, including: reviewing internal controls reports and revised reports; communicating internal controls deficiencies to agencies; contacting agencies to obtain missing information or reports; and conducting telephone or virtual meetings to resolve outstanding issues and answer questions. Financial Management expended approximately 114 hours to review and report on biennial internal controls.

Fraud, Waste, and Abuse Hotline

DIA resolved eight reported hotline complaints. Three complaints were researched for potential fraud, waste, or abuse of state funds; four complaints were referred to other agencies or entities having specific oversight for the issues; and one complaint did not have sufficient information to research. Financial Management expended approximately 143 hours on these complaints.

Audit and Monitoring Site Visit Reports

Pursuant to NRS 353.325, DIA reviewed and tracked nine audit and monitoring site visit reports issued by various entities, including: US Department of Housing and Urban Development, US Department of Health and Human Services, and US Substance Abuse and Mental Health Services Administration. Financial Management expended approximately 28 hours on monitoring site visits.

Assisting Other Agencies

DIA assists state agencies with compliance related issues and questions by providing Federal, NRS, NAC, and SAM guidance. Financial Management expended approximately 105 hours assisting other agencies and providing guidance.

Procurement Card Policies and Procedures

Pursuant to SAM 1556 Procurement Card Program, DIA is responsible for approving a state agency's procurement card (p-card) program policies and procedures prior to the agency obtaining a p-card. Financial Management expended approximately 25 hours on p-card policies and procedures.

Training

DIA resumed conducting in-person internal controls training classes in fiscal year 2023 after having suspended training because of COVID restrictions, trainer availability, and limitations with the SMART21 training module. DIA conducted five internal controls training classes; 66 participants from seven agencies received training.

Online training is being developed and will be implemented upon completion.

Performance Measure

DIA administers pre-training and post-training tests for each in-person internal controls training class held to determine training effectiveness.

The following summarizes Financial Management's performance measure:

Performance Measure	FY 2022		FY 2023		FY 2024
	Projected	Actual	Projected	Actual	Projected
Percentage increase in trainees' overall test scores	25	0	25	22	25

Fiscal Year 2024 and Beyond

The Division of Internal Audits (DIA) is moving into fiscal year 2024 conducting internal audits and reviews that develop insightful and meaningful solution-based recommendations. DIA's effort is to assist executive branch leaders better serve the public through more efficient and effective government. DIA is prepared to accept and prioritize internal audit requests and/or reviews and to respond quickly with objective and reliable information to support executive branch leaders and help improve agency management and operations.

As of the beginning of fiscal year 2024, DIA has an audit plan for over two years of identified internal audit work.

External Assessment

In fiscal year 2024, DIA will complete an External Assessment in accordance with provisions of NRS 353A.045.9 and the Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing, Standard 1312. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. In addition to assessing DIA's compliance with IIA standards in general, the assessor will also validate the results of DIA's internal assessment conducted in fiscal years 2023 and 2024. DIA plans to report the internal and external assessment results to the Executive Branch Audit Committee at the October 25, 2023 meeting.

Internal Audit Section

DIA plans to complete eight audits in fiscal year 2024. DIA plans to hold three Executive Branch Audit Committee meetings, tentatively scheduled for October 25, 2023; February 28, 2024; and June 2024. This meeting schedule will allow DIA to respond more quickly and affect internal audit work in accordance with the Committee's authorities under NRS 353A.038.

DIA will complete audit work in accordance with the Governor's directives under Executive Order 2023-005 related to Nevada's 17 School Districts and the State Public Charter School Authority by December 29, 2023. As of June 30, 2023, DIA does not anticipate audit work in fiscal year 2024 under the auspices of Executive Order 2023-004 as all Nevada occupational and professional licensing boards were deemed to have complied with the Governor's directives.

Compliance Review Section

DIA plans to complete five compliance reviews in fiscal year 2024, including the items in progress at the end of fiscal year 2023. DIA continues to focus on agencies that have not had a compliance review in the recent past and agencies identified through other audits and reviews. Compliance reviews may be postponed when compliance auditors are assigned to assist with special reviews, audits, Executive Order audit requirements, ARPA audit requirements, and other division activities.

Financial Management Section

DIA will conduct monthly training sessions through the end of calendar year 2023 and will conduct quarterly training sessions beginning calendar year 2024 or as requested by specific agencies. DIA plans to complete development of a virtual training course following the reinstatement of NVeLearn.

DIA looks forward to collaborating with the Executive Branch Audit Committee and the Clerk of the Board of Examiners to identify and conduct internal audits and reviews that are relevant and help inform public policy decisions for Nevada's state government leaders.